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Kansas Health Policy Authority

Impact of Budget Reductions in Medicaid and Alternative Sources of Savings

Testimony before the House Appropriations Committee

January 13, 2010

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Overview

- **KHPA Budget Summary**
- **FY 2010 Governor's Allotments**
- **Expected impact of 10% reduction in provider payments**
- **Alternative sources of savings**

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Brief Overview of KHPA's Budget

- **KHPA's FY 2009 budget was about $2.6 billion**
  - $1.36 billion was non-SGF funding for KHPA medical programs
  - $800 million was federal funds passed through to other Medicaid service agencies (SRS, KDOA, JJA, KDHE)
  - $450 million was SGF funding for services and operations
- **KHPA programs and operations are funded separately**
  - FY 2009 operational funding was $23 million SGF
  - Caseload costs are about 20 times larger than operational costs
  - Caseload savings cannot be credited to cost-saving operations
  - The federal government matches Medicaid operations at 50-90%
  - Operational costs for the state employee plan are funded off-budget through standard charges to agencies for each participating employee
- **KHPA FY 2010 budget reductions concentrated on operations**
  - Medicaid caseload protected due to Federal stimulus dollars
  - KHPA operational funding reduced 15.5% versus FY 2009

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FY 2010 Governor's State General Fund Allotments *July 2009*

- FY 2009 Caseload Savings ($5,300,000)
- Expansions to Pregnant Women ($524,000)
- Increased FMAP Rate ($6,300,000)

- <u>No impact on current services</u>

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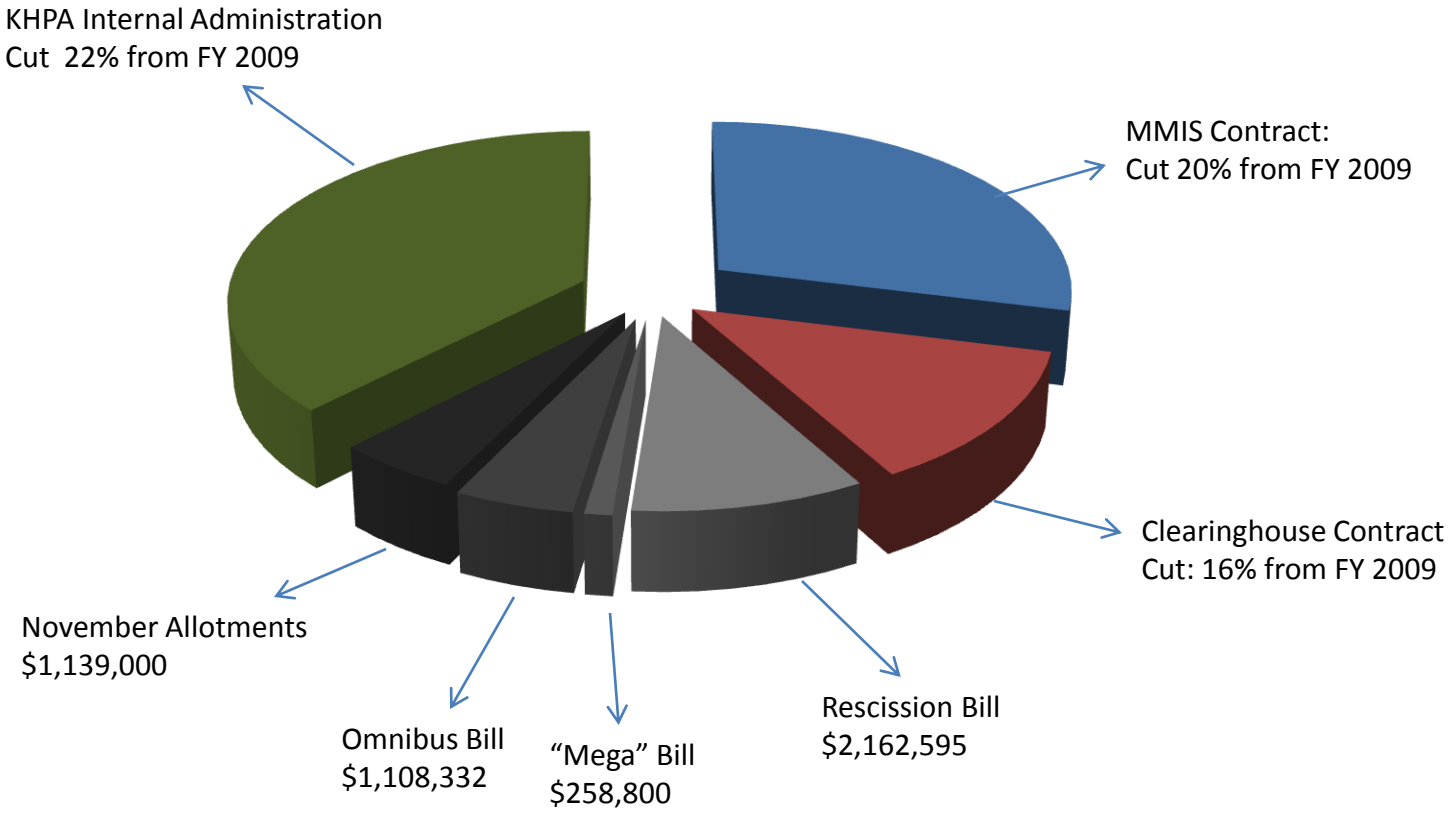
FY 2010 Governor's State General Fund Allotments *November 2009*

- **Caseload reductions**
  - Across-the-board 10% reduction in Medicaid provider rates
  - Limitation on MediKan benefits to 12 months
- **Administrative reduction of $1.13 million SGF**
  - Total impact is $2.5 million all-funds
  - Cumulative 20.5% reduction since approved FY 2009
  - Allotment represents 5% reduction on FY 2009 base
- **SCHIP reduction of $1 million SGF**
  - Growing backlog may reduce pressure on funding
  - Waiting to see the impact of the January 1st expansion in coverage to children between 200% of the FY 2009 poverty level and 250% of the 2008 poverty level

FY 2010 Operating Budget After Allotments

FY 2009:	**$22,814,018**
Rev. FY 2010:	**$18,145,291**
Total Cuts:	**$4,668,727 (20.5%)**



Summary of November 2009 Allotment for KHPA Operations

- Freeze KHPA staff overtime and reduce KHPA staff through attrition (109,000) SGF
- Eliminate extra contract funding dedicated to the Clearinghouse eligibility backlog (140,000)SGF
- Cut State staff overtime dedicated to the Clearinghouse eligibility backlog (60,000) SGF
- Reduce scope of services in the Clearinghouse contract (197,000) SGF
- Amend verification policies and reduce call center capacity at the eligibility Clearinghouse (233,000) SGF
- Lapse funds from FY 2009 (150,000) SGF
- Eliminate the call center for Medicaid providers and significantly reduce call center capacity for Medicaid beneficiaries (250,000) SGF

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Focus: Eliminate Added Capacity at the Eligibility Clearinghouse

- Extra contract funding and state staff overtime dedicated to the eligibility Clearinghouse backlog
- Loss of funding will lead directly to growth in the backlog of applications, estimated backlog in June 2011 of 33,000
- Growing backlog will result in delayed or foregone medical care for beneficiaries and a loss of revenue for providers
- Creates the potential violation of federal 45 day processing time requirements
  - Threatens compliance linked to ARRA funding
  - Potential loss of up to $11 million in CHIPRA bonus payments
  - Potential threat to $40 million HRSA grant for improved eligibility operations

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Focus: Examples of Simplifications to Medicaid/SCHIP Applications

- Self declaration of child support
- Eliminate trust test for “Caretaker Medical” (low-income parents)
- Self declaration of pregnancy
- Eliminate mid-year reporting for Transitional Medical recipients
- Continuous 12-month eligibility for caretaker medical (parents)
- Change income calculation for new applicants with new jobs
- Focus state workers on oversight and processing, not duplication
- Rely on Department of Labor wage information
- Pre-populate review form with lessened verification requirements
- New HW application designed to get questions answered accurately and to obtain necessary information

Focus: Eliminate Provider Call Center and Reduce Customer Service

- Fiscal agent (HP) receives 250,000 calls per year from providers and beneficiaries, those callers will now be directed to a web portal for information
- Call volume may divert to KHPA staff, but we have no capacity to manage the increase
- Payment accuracy likely to decline, resulting in higher caseload coasts
- No in-person training for new providers or changes in billing without the Provider liaisons
- Strain in relationships with Medicaid Providers
- Increase in payment appeals – but no increase in capacity to handle appeals

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Implementing the 10% Rate Reduction

- The "Budget Shortfall" payment reduction applies to the Medicaid paid amount (net reimbursement amount)
- Reductions are effective with dates of service on and after January 1, 2010
- The reduction applies to all providers as indicated in the public notice, published in the Kansas Register, December 17, 2009
  - HealthWave MCOs will pass the reductions through beginning in March or April, following mandatory advance CMS approval of the reduced capitation payments
  - The reduction will apply to paid claims, Medicaid disproportionate share payments, graduate medical education payments, critical access hospital settlements, Rural Health Clinic (RHC) cost settlements, Federally Qualified Health Center (FQHC) cost settlements, payments for Home and Community Based Services (HCBS) waivers, targeted case management, psychiatric residential treatment facility (PRTF), nursing facility for mental health (NF/MH), community mental health center (CMHC), substance abuse, head injury rehabilitation, and other payments.
  - The reduction does not apply to state institutions (University of Kansas hospital, state psychiatric institutions), nor to payments set by Federal regulation (i.e., through Medicare)

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Financial Impact of the 10% Reduction

- At least $18 million in savings to the state expected in FY 2010
  - About $8 million SGF for payment reductions to fee for service medical care providers
  - More than $10 million in expected savings through Medicaid services overseen by SRA and KDOA
  - Additional savings through managed care plans to be implemented following CMS approval
- The current federal matching rate is approximately 69%
- Providers experience the all funds reduction
  - Impact on providers is more than three times the savings to the state (1/.31 = 3.2)
  - Providers will experience a $58 million reduction in payments in FY 2010
- Foregone Federal matching payments will total approximately $40 million in FY 2010
- The impact in FY 2011 will be at least twice as great if the reductions continue
  - Full year impact on providers (all funds) would be around $150 million
  - Up to $25-30 million additional impact through HealthWave MCOs, pending CMS approval
  - ARRA stimulus payments expire in December 2010, after which the state match reverts to about 60%
  - State savings in FY 2011 would be around $50-55 million
  - Foregone Federal matching payments would be around $95-100 million

Provider Response to Medicaid Budget Reductions

- Rate reduction has prompted a strong reaction from a wide spectrum of providers
  - Impact is likely to vary by type of provider
  - Impact of rate cuts different if providers view it as permanent
  - Many have expressed concerns about the impact reductions will have on access to providers for Medicaid and SCHIP recipients
- Providers have expressed some of their deepest concerns over the latest reductions in customer service
  - A majority of KHPA administrative costs are outsourced through competitively bid contracts (fiscal agent; eligibility clearinghouse)
  - Alternatives are limited and reduce capacity for effective management of caseload costs

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Alternative Savings in Medicaid

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Reducing Medicaid Spending: Overview

- Medicaid spending is determined by four key factors
  - **People** covered, e.g., elderly, disabled, children and families, MediKan, foster care, etc.
  - **Services** provided, e.g., hospital services, pharmacy, mental health, nursing homes, community-based care, home health, hospice, etc.
  - **Rates** paid to each type of provider
  - **Utilization** of each service by each beneficiary

- Opportunities for reductions in spending differ
  - People covered
    - ARRA requires states to maintain eligibility through January 1, 2011
    - House and Senate health reform bills would extend that requirement indefinitely
  - Services provided
    - Some of the most expensive services are mandated by Federal statute
    - Optional services are not protected in ARRA
  - Rates
    - Rates are set, by and large, by fee schedule
    - Current ten percent reduction is at the upper end of imposed cuts nationally
  - Utilization of services
    - Health care management is intended to reduce unnecessary care and improve quality prevention

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Reducing Medicaid Spending: People Covered

- Distribution of spending across all populations varies widely
  - Low income families and children comprise about half of Medicaid enrollment (52% in FY 2009) and account for one-fifth of spending (21%)
  - Aged beneficiaries comprise about one tenth of Medicaid enrollment and account for nearly one-quarter of spending (23%)
  - Disabled beneficiaries comprise about one fifth of enrollment (18%) and account for nearly half of spending (47%)

- Spending for optional covered populations is concentrated among the elderly and disabled
  - SCHIP coverage of Children above 100% to 150% of poverty, depending on age, totals approximately $64 million AF (FY 2009)
  - Medicaid coverage of Newborns aged 0-1 between 133% and 150% of poverty could not be reduced without first eliminating SCHIP (no current estimate)
  - Spending on optional Aged and Disabled populations totals approximately $163 million (FY 2009)

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Reducing Medicaid Spending: Services Provided

- Optional services comprise about 31% of total Medicaid spending
- No medical services are optional for children
- Largest optional services for adults
  - Home and community based service waivers ($577 million AF; $175 million SGF)
  - Prescription drugs ($116 million AF; $38 million SGF)
  - Hospice services ($27 million AF; $8 million SGF)
  - Targeted case management for the MR/DD population and ICFs/MR (each about $13 million AF; $4 million SGF)
- Largest optional services are preferred substitutes for mandatory services
  - Eliminating optional services would cause harm to beneficiaries
  - A significant percentage of spending on optional services would shift to other, more intensive services
    - pharmacy, hospice, mental health → inpatient hospital
    - HCBS → nursing facilities

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Reducing Medicaid Spending: Health Care Management and Quality Improvement

- Recent KHPA initiatives
  - Health Promotion for Kansans with Disabilities Transformation Grant
  - Enhanced Care Management Pilot Project
  - Community Health Care Record Pilot Project
  - Commonwealth State Quality Institute Phase I & II
  - Vermont Medical Home Technical Assistance Initiative
  - National Academy of State Health Policy State Consortium to Advance the Medical Home for Medicaid and CHIP Programs
- KHPA Board request to review the net impact of HealthWave managed care

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Reducing Medicaid Spending: Health Care Management and Quality Improvement

- **Recent Measures Taken by Administrative Action**
  - Transformation Recommendations Implemented
    - Reasonable pricing requirements for durable medical equipment
    - Outsourced management of non-emergency transportation
    - Developed diabetes management initiative for home health
    - (Pricing reforms in home health are in process)
    - Published performance and quality data for HealthWave
    - Established the Mental Health Advisory Committee
    - Automated Prior Authorization for Select Pharmaceuticals
    - Increased Presumptive Eligibility Sites

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Reducing Medicaid Spending: Health Care Management and Quality Improvement

- **Reduction Options Included in FY 2011 Budget Submission**
  - Streamline Prior Authorization in Medicaid
    - $243,000 SGF/ $952,000 AF
  - Mental Health Pharmacy Management
    - $800,000SGF/ $2.0M AF
  - Align Professional Rates in Medicaid
    - $ 1 M SGF/ $ 2.8 M AF (Corrected)

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Cost-Saving Measures Taken by Other States

- Options Kansas Medicaid has already taken
  - Reductions in provider rates
  - Placing limits on community based long term care services, home health services, and private duty nursing
  - Intensifying prescription drug utilization and cost control initiatives
  - Chronic care management
  - Behavioral health utilization review
  - Post payment and hospital outlier review
  - Reduction in MCO administrative reimbursement

- Other options
  - Long term care managed care
  - 30 day no-readmit hospital policy for the same diagnosis
  - Coordination of behavioral health with physical health care
  - Incorporation of durable medical equipment costs into Home Health Nursing Home per diems
  - Eliminating optional services, e.g., hospice
  - Imposing new or higher copayment requirements, e.g., for pharmaceuticals

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